

RD AN No. 3451 (1965-B)  
March 1, 1999

TO: State Directors  
Rural Development

ATTENTION: MFH Program Directors, Coordinators  
and Rural Development Managers

FROM: Jan E. Shadburn  
Administrator  
Rural Housing Service

SUBJECT: Fiscal Year 1999 Multi-Family Housing Portfolio  
Management and Loan Servicing Plan

**PURPOSE/INTENDED OUTCOME:**

This Administrative Notice (AN) officially establishes the goals for Rural Development's Multi-Family Housing portfolio servicing activities for the period October 1, 1998 - September 30, 1999. It also provides guidance on accomplishing the objectives outlined in Attachment A, **Fiscal Year 1999 Multi-Family Housing Portfolio Management and Loan Servicing Plan**, (the Servicing Plan).

**COMPARISON WITH PREVIOUS AN:**

No previous AN has been issued on this topic for this Fiscal Year.

**IMPLEMENTATION RESPONSIBILITIES:**

State Directors and Multi-Family Housing (MFH) Program Chiefs/Coordinators should immediately review the contents of the Servicing Plan and make plans for implementing and measuring the results of these efforts. This should be done taking into consideration the present organization of the MFH Program, utilizing all personnel involved in the administering of the MFH program.

EXPIRATION DATE: December 31, 1999

FILING INSTRUCTIONS:  
Preceding RD Instruction 1965-B

Servicing the MFH portfolio will continue as a top priority in management of the program. State Directors are to make the most effective and efficient use of personnel resources in accomplishing the objectives of the Servicing Plan. Proper servicing also means borrower counseling, conducting financial analyses and assuring properties are properly maintained, and tenants' interests are protected.

States are expected to implement the Servicing Plan using applicable regulations, Agency instructions, and administrative notices. All servicing authorities should be utilized to the maximum extent possible to correct physical and financial deficiencies and remove loan delinquencies. Projects that are experiencing problems uncommon to the portfolio norm should be serviced using the following: 1) workout agreements, 2) transfers, 3) reamortizations, 4) consolidations and debt settlements. The National Office, Multi-Family Housing Portfolio Management Division (MHPMD) should be contacted for guidance in cases not explicit in the regulations.

### **OBJECTIVES:**

The following are the principal factors that are the focus of the Servicing Plan:

1. Projects classified as MFIS Classification Code "D"
2. Delinquencies
3. Debt settlement of all inactive accounts

Oversight of the Servicing Plan will be performed by designated MHPMD staff persons who are responsible for monitoring the servicing activities, data collection and compilation, and follow-up with assigned States. How States are to work with the individual MHPMD staff person and accomplish the objectives are contained in the Servicing Plan.

### **MFIS REPORTING REQUIREMENTS:**

The Multi-Family Integrated System (MFIS) will be used in tracking each state's performance in meeting Fiscal Year (FY) 1999 goals. This information will also be used to evaluate those states that may need additional assistance in determining solutions to problem accounts and the effectiveness of actions previously taken.

In addition to monitoring servicing actions, MFIS should be used as a work planning tool and as a means of documenting information for borrowers. MFIS is to be used by all servicing officials responsible for servicing the MFH program. The National Office also receives requests for portfolio information from interested parties. MFIS allows for more timely gathering of the information with minimal effort from the servicing offices. Each state is required to prepare a classification report each quarter. **The reports are due to the National Office on April 15 and July 15, 1999, using the report format of Attachment B.**

### **DELINQUENCY SERVICING:**

Field offices receive Report Codes 545 and 616 on a monthly basis. These two reports can be used to monitor and service all delinquent accounts. These reports will be monitored closely by the National Office servicing official assigned to the various states. National Office reviews of States indicate that a number of accounts 180 days or more delinquent are not being serviced in a timely manner and not receiving appropriate and timely follow up with existing servicing agreements. The reviews also revealed a number of these accounts have pending litigation that has not had any recent follow up by servicing officials to attempt to move the litigation along. The National Office servicing officials will also be responsible for providing assistance to any State in the servicing of its portfolio. Each state identified on Page 6 of the Servicing Plan will

complete Attachment C, "MFH Servicing Report," and submit it to the National Office by the 15th of each month.

**DEBT SETTLEMENT OF INACTIVE ACCOUNTS:**

A number of long-term delinquencies are the result of inactive accounts with loan balances remaining after the asset is liquidated (i.e., foreclosure, sale or transfer for less than the debt, compromise offer, bankruptcy, etc.). The inactive accounts contribute to the portfolio's delinquency and need to be debt settled. States with accounts in this category will be required to service these accounts in accordance with the attached Servicing Plan.

We believe that good management of the MFH program begins with a thorough evaluation of your entire portfolio to gain insight into program strengths and weaknesses. Close monitoring, timely follow-ups and a consistent administering of the regulations are the keys to good program management and will enhance program stability. Good luck in your efforts this year.

If you have any questions regarding the contents of this AN or the Servicing Plan, please contact the MHPM Division at (202) 720-1600.

Attachments

**FISCAL YEAR 1999**

**MULTI-FAMILY HOUSING**



**PORTFOLIO MANAGEMENT**

**AND LOAN SERVICING PLAN**

**FISCAL YEAR 1999  
MULTI-FAMILY HOUSING  
PORTFOLIO MANAGEMENT AND LOAN SERVICING PLAN**

**OUTLINE**

**A. EXECUTIVE SUMMARY**

**B. MISSION STATEMENT**

**C. OBJECTIVES**

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**Acceptable Level**

1. Projects Classified as MFIS Classification Code “D”
2. Delinquencies
3. Debt Settlement of All Inactive Accounts

**Monitoring**

1. Projects Classified as MFIS Classification Code “D”
2. Delinquencies
3. Debt Settlement of All Inactive Accounts

**Feedback and Action**

1. Projects Classified as MFIS Classification Code “D”
2. Delinquencies
3. Debt Settlement of All Inactive Accounts

**Implementation**

**Other Servicing Issues**

**FISCAL YEAR 1999  
MULTI-FAMILY HOUSING PORTFOLIO  
MANAGEMENT AND LOAN SERVICING PLAN**

**A. EXECUTIVE SUMMARY**

Fiscal Year 1998 produced tremendous successes in the management and servicing of the Multi-Family Housing (MFH) portfolio. Despite these successes, FY 1999 will still present us with servicing challenges. These challenges will require staff at all levels to be better trained and provided with the resources and support needed to meet these challenges. The mission, objectives, and plans of action for effective management and loan servicing of the Rural Housing Service (RHS) MFH portfolio are described herein.

**B. MISSION STATEMENT:**

The mission of the MFH (RRH and LH ) program is to provide decent, safe, sanitary and affordable housing to the very low- and low-income tenants residing in MFH projects. This mission must be met while at the same time providing effective asset management to protect the Government's security and ultimately the taxpayers' investment.

**C. OBJECTIVES:**

The following objectives will be the focus in successfully meeting our mission and effectively servicing the MFH loan portfolio:

1. Projects Classified as MFIS Classification Code "D"
2. Delinquencies
3. Debt Settlement of All Inactive Accounts

The Multi-Family Integrated System (MFIS) is a local database that, when data is entered timely and accurately, serves as an information source for effectively servicing the MFH portfolio. Code "D" projects will be the main focus of MFIS servicing because of the number of elements in this category that are worthy of monitoring. In order for effective servicing and monitoring to take place, it is imperative that all states fully populate and update the data in the system.

**D. PLAN OF ACTION**

The plan of action for meeting the three objectives described previously consists of four major components:

- Acceptable Level
- Monitoring
- Feedback and Action
- Implementation

The following sections will describe how the Multi-Family Housing Portfolio Management Division (MHPMD) proposes to implement the plan of action in meeting each of the four objectives. All numbers in this plan are based on those as indicated in the attached tables by source and date. The data will be updated quarterly and the states re-ranked accordingly.

**Acceptable Level:**

Acceptable levels must be established for each of the objectives.

**1. Projects Classified as MFIS Classification Code “D”.** Any project having any one of the following conditions other than delinquency must be reported as a Code “D”: 1) delinquent loan account, 2) unreceived budget, 3) annual financial statement not submitted 4) delinquent reserve account, 5) taxes not paid, 6) insurance not paid, 7) high vacancy - reduced rental income of 15% or more, 8) health and safety problems noted, 9) noncompliance with EO & Fair Housing requirements, 10) unsatisfactory rating from last supervisory visit, 11) substantial deferred maintenance, 12) unauthorized owner/management agent withdrawal from project funds, 13) workout plan in place but not on schedule. It is our goal that all States maintain a level of Code “D” projects not to exceed the October 1998 National average of 10.2%, as shown in Exhibit A. All states that exceed the National Average will receive National Office supervision.

**2. Delinquencies.** The MFH portfolio National delinquency level for the period ending September 31, 1998, was a record low at 1.9 percent. Each State is to be commended for their contribution to such a monumental feat. On the basis of this accomplishment we are proposing that we maintain the same objective for 1999, and maintain a National average of **2.0 percent**. As of December 31, 1998, the highest individual State delinquency was 6.7 percent. On the basis of this, the delinquency goal for 1999, is for all states over 2.0 percent to reduce their delinquency by **3 percent** or to 2.0 percent, whichever is less.

A review of our delinquency reveals that a number of projects are 180 days or more delinquent and contribute to most State’s delinquency. Accounts that are consistently 180+ days behind should be aggressively serviced and borrowers counseled regarding timely payments. If such long-term delinquency is the results of pending litigation regarding a liquidation, the appropriate officials should be encouraged to expedite such litigation. The National Office should be contacted where States are experiencing difficulties with litigation officials, or the account is a part of a long-term workout agreement.

**3. Debt Settlements.**

The Report Codes 545 and 616 reveal a number of inactive accounts (collections only) in some states. These accounts need to be debt settled due to their impact on the overall MFH delinquency rate. Debt settlement may be in the form of a cancellation of debt, charge-off, or compromise offer. Rural Development Instruction 1956-B should be followed to debt settle these accounts. Any accounts that require the assistance of the Office of General Counsel, the Assistant United States Attorney and/or the National Office should be requested immediately. All inactive accounts listed in Attachment C must be debt settled by **September 30 ,1999**.

### **Monitoring:**

Many of the necessary reporting processes already exist in order to effectively monitor the areas outlined in the objectives.

**1. Projects Classified as MFIS Classification Code “D”.** Presently, there is no National automated system for reporting the number of properties identified with health and safety violations, seriously deferred maintenance, fair housing violations, or any of the other Code “D” conditions. MFIS and the resultant Loan Classification System have components that identify these and other problems, enabling states to focus resources and monitor problem projects more efficiently. States will be required by a separate Administrative Notice (AN) to report on all D8’s and D11’s. Quarterly updates will enable the National Office staff to determine need and focus. Additionally, program directors must do a sample test of at least 10 percent of all projects to ensure that proper coding is taking place.

**2. Delinquencies.** Currently, in MFH we receive the 616 Report from the Finance Office each month. This report is effective in monitoring the portfolio delinquency levels. We are currently using this report to complete the MFH Portfolio Management Monthly Report. The Monthly Report format reflects year-to-year trends of the delinquent accounts. The 616 report is provided to all states and servicing offices by the Finance Office. The National Office will provide State Directors with copies of the Monthly Report so they may assess their progress and standing as compared to other states.

### **3. Debt settlements.**

A FOCUS Report on inactive accounts will be extracted monthly to enable servicing officials to monitor progress and report progress to state office MFH housing officials. This monthly monitoring will also enable the National Office to determine if intervention at the National level is needed to expedite the process.

### **Feedback and Actions:**

The preceding section outlines the reports that would be made available to State Directors and the frequency of their distribution. Additionally, we propose that members of the National Office MHPMD staff have contact either monthly or quarterly, depending upon the frequency of reporting of the objective, with those states identified as having problems. The categories of assistance for states will be as follows:

**1. Projects Classified as MFIS Classification Code “D”.** Those states identified as not reducing the number of projects with Code “D” problems to the National average will be contacted to determine what efforts are being made (e.g., workout plans in place, special servicing efforts, liquidations, resource allocation, training, etc.) to correct identified deficiencies. If problems continue to persist, a visit by MHPMD staff would be recommended to help a state analyze its problems, determine needs, and implement effective solutions.



**2. Delinquencies.** Those states with overall delinquency rates above the National average would be contacted to determine what efforts are being made to reduce delinquency rates and to identify what assistance and/or training could be provided. Monthly status reports will be required from those states identified as having problems. Similarly, any states identified as experiencing a trend toward increasing delinquencies will be contacted.

**3. Debt settlements.** All states with accounts listed in Attachment C will report monthly progress and identify any assistance needed to the National Office.

### **Implementation**

The method of implementation for the oversight of the portfolio will consist of designated MHPMD staff persons being assigned the responsibility of monitoring the servicing activities, data collection and compilation, and follow-up with assigned states. The coordination and preparation of the status reports for senior Agency management will be the responsibility of a designated staff person. These status reports will be given to the Division Director for discussion with senior management. The following staff members will be responsible for the identified servicing actions for the next quarter:

Janet Stouder	MFIS Monitoring	All States
Edith Brown	Delinquency, Code D's, and/or Debt Settlement	AR, CA, NJ, OK, PR, SC, TN, UT, VA
Jim Vollmer	Delinquency, Code D's, and/or Debt Settlement	AK, CO, GA, IL, ME, MI, NY, TX, WV,
Terry Bishop	Delinquency, Code D's, and/or Debt Settlement	HI, KS, MS, NV, OR, VI, WS, WY, SD

Additionally, the States on the following pages have been identified as having special servicing needs and will receive a servicing review and assistance visit. The servicing review will take place over the course of a week unless otherwise indicated. Usually, a National Office staff person will be the lead person on the visit, accompanied by a state program person yet to be determined. We reserve the right to amend the list as appropriate due to changes in the needs of the states and available resources.

**States Receiving Review/Assistance Visit**

<b>State</b>	<b>Type of Review</b>	<b>Date</b>
Arkansas	LH Review	To Be Determined
Illinois	Servicing Review	To Be Determined
Louisiana	OIG Follow-up	To Be Determined
Mississippi	LH Review & OIG Follow-up	To Be Determined
Minnesota	Servicing Review	To Be Determined
New Mexico	Servicing Review	To Be Determined
South Carolina	Servicing Review	To Be Determined
Tennessee	Servicing Review	To Be Determined

**Other Servicing Issues**

The above items represent the identification of states that are above the “norm” at certain reporting periods and the plans for accomplishments. Additional efforts may be needed to resolve unique servicing actions. We are nearing the successful conclusion of appointment as receiver of a large portfolio of projects in several states. To transition out of the receivership, it will be necessary to focus efforts on obtaining new substitute general partners, transfers of ownership of projects, or liquidate accounts as individual situations dictate. Additionally, we will continue to identify projects with seriously deferred maintenance and health and safety violations and require states to report the current status and servicing action(s) of these projects. Such continued monitoring will enable us to determine current and future need of resources to assist States in bringing about corrective action(s).

**PROJECTS CLASSIFIED CODE “D”**

(Above National Average of 10.2%)

(As of October 1998)

<b><u>State</u></b>	<b><u>Percent</u></b>
Texas	32.8
Oregon	27.7
New Jersey	20.0
South Carolina	17.8
California	17.4
Hawaii	16.9
West Virginia	16.5
Nevada	16.4
Virginia	15.9
New York	15.8
Illinois	15.5
Wyoming	14.3
Maine	12.6
Puerto Rico	12.4
Kansas	12.1
Utah	12.0
Colorado	11.6
Michigan	11.5
South Dakota	11.3
Wisconsin	11.0
Oklahoma	10.5
Georgia	10.4

**DELINQUENCIES**

**STATES WITH THE HIGHEST DELINQUENCIES**  
(As of December 31, 1998)

<b><u>State</u></b>	<b><u>% Delinquent</u></b>
Puerto Rico	6.7
Virgin Island	6.3
Alaska	5.4
Illinois	5.3
Oklahoma	5.2
Texas	5.2
Colorado	5.0
South Carolina	4.1
Hawaii	4.1
Tennessee	3.9
Mississippi	3.6
New Jersey	3.5
New York	3.0
Minnesota	2.9
California	2.8
West Virginia	2.6
Virginia	2.3
Utah	2.2
North Dakota	2.1

**COLLECTION ONLY ACCOUNTS  
JANUARY 1999**

<b><u>STATE</u></b>	<b><u>NO. PROJ</u></b>	<b><u>UNPAID BAL</u></b>
Arkansas	2	\$1,181,055.10
Colorado	1	20,641.00
Illinois	2	716,182.83
Kansas	1	21,492.61
Michigan	1	1,025,922.02
Minnesota	1	160,794.40
New Jersey	1	72,051.52
Oklahoma	1	374,705.84
Oregon	1	246,765.86
S. Carolina	1	172,004.96
Texas	5	2,311,184.51
Wisconsin	1	225,685.13
Total	18	\$6,528,485.78

LOAN CLASSIFICATION SUMMARY  
STATE: \_\_\_\_\_  
Fiscal Year: 1999  
(Report Due April 15, July 15 and October 15, 1999)

Servcing Office	D	C	B	A	TOTAL	Percentage of MFIS Current
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
TOTAL	_____	_____	_____	_____	_____	_____

Comments:

Verified by:

\_\_\_\_\_  
Program Director

Reviewed by:

\_\_\_\_\_  
State Director

Date:\_\_\_\_\_

**NOTE: MFIS Report - Summary (All Classification Conditions) must be submitted also.**

**Attachment C not automated.**